

Report  
of the  
Examination of  
Jewelers Mutual Insurance Company  
Neenah, Wisconsin  
As of December 31, 2003

## TABLE OF CONTENTS

	Page
I. INTRODUCTION .....	1
II. HISTORY AND PLAN OF OPERATION .....	3
III. MANAGEMENT AND CONTROL .....	5
IV. AFFILIATED COMPANIES .....	7
V. REINSURANCE .....	9
VI. FINANCIAL DATA .....	14
VII. SUMMARY OF EXAMINATION RESULTS .....	24
VIII. CONCLUSION.....	29
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	30
X. ACKNOWLEDGMENT .....	31



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Jim Doyle, Governor**  
**Jorge Gomez, Commissioner**

**Wisconsin.gov**

December 17, 2004

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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a  
compliance examination has been made of the affairs and financial condition of:

JEWELERS MUTUAL INSURANCE COMPANY  
Neenah, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Jewelers Mutual Insurance Company (JMIC or the company) was conducted in 1999 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## II. HISTORY AND PLAN OF OPERATION

The company is a mutual property and casualty insurer, which was incorporated in March 1913 and commenced business in June 1914. The company writes fire, allied lines, commercial multi-peril, and inland marine coverage on retail, wholesale, and manufacturing jewelers and watchmakers, as well as inland marine coverage on personal jewelry. The company is licensed in all 50 states and writes business in all states as well as the District of Columbia, Puerto Rico, and the Virgin Islands.

In 2003, the company wrote direct premium in all areas of the country, with the following states accounting for the largest percentages:

New York	\$12,441,732	14.2%
California	10,703,999	12.2
Texas	6,764,945	7.7
Florida	6,246,992	7.1
Illinois	4,022,158	4.6
New Jersey	3,427,630	3.9
Pennsylvania	3,337,437	3.8
All others	<u>40,529,448</u>	<u>46.5</u>
Total	<u>\$87,474,341</u>	<u>100.0%</u>

The company's major product is the jeweler's block policy. This covers the jeweler's stock from losses related to theft, robbery, and certain other perils. The company provides this coverage alone or in conjunction with a variety of commercial multi-peril policies, which provide jewelers with coverage for commercial property and liability risks. Personal jewelry coverage accounted for approximately 22% of the company's direct premium written in 2003.

The major products are marketed through approximately 550 independent agents and through direct marketing. A majority of the commercial business is obtained through independent agents; personal jewelry is written on a direct basis.

The following table is a summary of the net insurance premiums written by the company in 2003. The growth of the company is discussed in the Financial Data section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Fire	\$ 39,003	\$	\$ 36,067	\$ 2,936
Allied lines	2,296		2,171	125
Commercial multiple peril	16,090,382		1,984,161	14,106,221
Inland marine	<u>71,342,660</u>	<u>      </u>	<u>3,179,954</u>	<u>68,162,706</u>
Total All Lines	<u>\$87,474,341</u>	<u>\$</u>	<u>\$5,202,353</u>	<u>\$82,271,988</u>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of ten members, one of whom is an inside director. Directors are elected by the policyholder members at the annual policyholders' meeting to serve a three-year term. Officers are elected by the board of directors at the annual organizational meeting, which immediately follows the annual policyholders' meeting. Inside directors currently receive no compensation for serving on the board. Outside directors receive \$10,000 per annum, payable in four equal installments per board meeting, except for the chairman of the board who receives \$30,000. Committee members receive an additional \$500 for each committee meeting attended, while committee chairs receive \$1,000 per meeting.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Robert W. Barker Scottsdale, AZ	Colored Gem Dealer	2007
Jonathan J. Bridge Seattle, WA	CO-CEO & General Counsel Ben Bridge Jeweler, Inc.	2007
Patti J. Geolat Dallas, TX	Jewelry Appraiser	2007
Hugh G. Glenn New York, NY	President/Watch Wholesaler Hugh Glenn Corporation	2005
Ronald R. Harder Neenah, WI	President and CEO Jewelers Mutual Insurance Company	2005
Nancee A. James Baltimore, MD	Insurance Industry Consulting	2006
Charles A. Lasker Eau Claire, WI	Retail Jeweler	2005
John A. Michaels Waterbury, CT	Retail Jeweler	2006
Carl J. Rudolph Appleton, WI	Retired Insurance Company Executive	2006
Thomas D. Silver Bartlett, IL	Retired Insurance Company Executive	2005

## Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2004 Compensation
Patti J. Geolat	Chairman of the Board	\$ 44,795
Ronald R. Harder	President and CEO	619,515
Darin L. Kath	Corporate Secretary and COO	223,740
Carol P. Sanders	CFO and Treasurer	61,988*
Jeffrey A. Mills	Vice President – Claims	130,764
Mike D. Maley	Vice President – Underwriting	117,640
Susan C. Fritz	Vice President – Marketing	111,048
David J. Sexton	Vice President – Loss Prevention	121,380
Connie L. Rank-Smith	Vice President – HR & Administration	121,177
Wayne S. Cwik	Vice President – Actuarial	119,710

\*Employed as of 9/27/04. Amount represents actual 2004 compensation.

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

### Corporate Governance Committee

Thomas Silver, Chair  
Nancee James  
Robert Barker  
Patti Geolat  
Hugh Glenn

### Audit Committee

Nancee James, Chair  
Thomas Silver  
Jonathan Bridge  
Carl Rudolph  
Patti Geolat

### Compensation and Employee Benefits Trust Committee

John Michaels, Chair  
Jonathan Bridge  
Charles Lasker  
Patti Geolat  
Thomas Silver

### Investment Committee

Robert Barker, Chair  
Ronald Harder  
John Michaels  
Patti Geolat  
Carl Rudolph

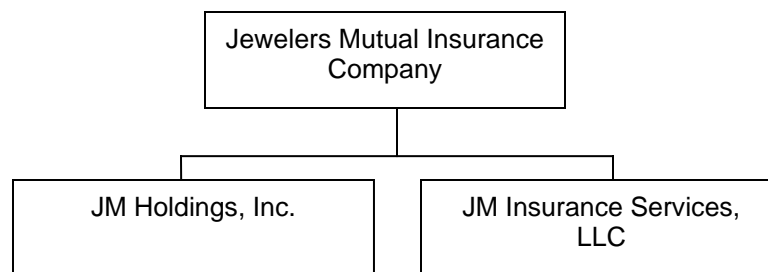


#### IV. AFFILIATED COMPANIES

Jewelers Mutual Insurance Company is a member of a holding company system.

The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart. In addition to its affiliations, the company maintains a significant relationship with another organization in the jewelry industry, Jewelers' Security Alliance.

**Organizational Chart  
As of December 31, 2003**



##### **JM Holdings, Inc.**

JM Holdings, Inc., was formed in 1997 with \$1,000 of capital from Jewelers Mutual. The holding company was formed to assist Jewelers Mutual in expanding their business. In 1998, Jewelers Mutual contributed an additional \$9,000 through the purchase of JM Holdings common stock. As of December 31, 2003, the audited financial statements of the company reported assets of \$9,970, liabilities of \$0, and stockholder equity of \$9,970. Operations for 2003 produced net income of \$347.

##### **JM Insurance Services, LLC (JMIS)**

JM Insurance Services, LLC, was incorporated on December 4, 2000, as a limited liability company whose sole member is JMIC. JMIS was capitalized with a \$930,000 contribution from JMIC. The original intent was to establish a JMIC-owned agency for the purchase and retention of a book of California business. JMIS continues to operate as an independent insurance agency and conducts business in Arizona, Washington, and Alaska, as well as California. As of December 31, 2003, the company's audited financial statements reported assets

of \$718,209, liabilities of \$276, and equity of \$717,933. Operations for 2003 produced net income of \$80,490.

#### **Jewelers' Security Alliance (JSA)**

JSA, a nonprofit trade association located in New York City, was formed in 1883 to assist the jewelry industry in crime prevention. The organization compiles data on all types of criminal activity that affects the jewelry industry. This information is distributed to JSA members through publications, a web site, seminars, and consulting activities. JSA also provides technical information on alarm systems, safes, and other crime prevention hardware, as well as sharing data and analysis with the FBI and local law enforcement agencies.

Jewelers Mutual believes that it has benefited from its policyholders' membership in JSA, and has instituted a program in which it pays the JSA membership fee each year for its commercial policyholders. Jewelers Mutual believes JSA's activities are an integral part of its loss control efforts.

#### **Agreements with Affiliates**

In 2001, the company entered into a management agreement with its affiliate, JMIS, which provides for the reimbursement of expenses incurred by the company for furnishing JMIS with employees, goods, and services. Refer to the "Summary of Examination Results" section of this report for further discussion on this topic.

## V. REINSURANCE

The company's reinsurance program consists primarily of ceding commercial lines excess of loss coverages to multiple reinsurance companies through a broker; the company complied with the Reinsurance Intermediary regulation. Personal jewelry reinsurance is placed on a facultative basis. JMIC has historically ceded a relatively small amount of business, and that trend continued during the period under examination. In 2003, the company ceded approximately 6% of written premium. A summary of the current significant reinsurance agreements and strategy is below. All contracts contained proper insolvency provisions. In addition to the following contracts, the company cedes, on a facultative basis, the portion of any large property risk that is above \$60 million. The company currently assumes no reinsurance.

### Nonaffiliated Ceding Contracts

1. Type: Multiple Line Excess of Loss

Reinsurers:	Allied World Assurance Company, Ltd.	47.50%
	Hannover Ruckversicherungs-AG	12.50
	Platinum Underwriters Reinsurance Inc.	<u>40.00</u>
		100.00%

Effective date: January 1, 2004

Scope: Property Business: Fire, Allied Lines, Business Package Policies, Commercial Package Policies, and Inland Marine including Jewelers' Block.

Casualty Business: Bodily Injury Liability, Property Damage Liability, Personal Injury Liability, and Medical Payments.

Retention: Property Business: \$1,000,000 plus 5% of the amount in excess of \$1,000,000 between \$1,000,000 and \$2,000,000 on each risk in each occurrence.

Casualty Business: \$1,000,000 plus 5% of the amount in excess of \$1,000,000 between \$1,000,000 and \$2,000,000 on each risk in each occurrence.

Coverage: Property Business: 95% of \$1,000,000 on each risk in each occurrence subject to a limit of \$3,000,000 on all risks in each occurrence.

Casualty Business: 95% of \$1,000,000 for each occurrence.

Premium: A sliding rate (based on three-year ceded loss ratio) with a minimum of 0.80% and a maximum of 2.00% of the company's subject net earned premium; deposit premium of \$904,500 shall be payable in quarterly installments of \$226,125.

Termination: This agreement shall be effective at 12:01 a.m., Local Standard Time, January 1, 2004, with cancellation at any December 31 after 2004, with 90 days' written notice via certified or registered mail, return receipt requested.

2. Type: Property Per Risk Excess of Loss

Reinsurers: Allianz Suisse Versicherungs  
5.00% of Section I; 7.50% of Section II  
Allied World Assurance Company, Ltd.  
42.50% of Section I; 10.00% of Section II  
Aspen Insurance UK Ltd  
7.50% of Section I; 10.00% of Section II  
Certain Lloyd's Markets  
15.00% of Section I; 32.50% of Section II  
Hannover Ruckversicherungs-AG  
10.00% of Section I; 10.00% of Section II  
Montpelier Reinsurance Ltd.  
0.00% of Section I; 10.00% of Section II  
Platinum Underwriters Reinsurance Inc.  
20.00% of Section I; 10.00% of Section II  
QBE Reinsurance Corporation  
0.00% of Section I; 10.00% of Section II

Effective date: January 1, 2004

Scope: Property Business: Fire, Allied Lines, Business Package Policies, Commercial Package Policies, and Inland Marine including Jewelers' Block.

Retention: \$2,000,000

Coverage: First Layer: 100% of \$3,000,000 in excess of \$2,000,000 per risk subject to a maximum limit of liability to the reinsurer of \$6,000,000 per occurrence.

Second Layer: 100% of \$15,000,000 in excess of \$5,000,000 per risk subject to a maximum limit of liability to the reinsurer of \$30,000,000 per occurrence.

Premium: First Layer: 1.10% of the company's subject net earned premium with a minimum premium of \$558,800; deposit premium of \$698,500 shall be payable in quarterly installments.

Second Layer: 1.50% of the company's subject net earned premium with a minimum premium of \$762,000; deposit premium of \$952,500 shall be payable in quarterly installments.

Termination: This agreement shall be effective at 12:01 a.m., Local Standard Time, January 1, 2004, with cancellation at any December 31 after 2004, with 90 days' written notice via certified or registered mail, return receipt requested.

3. Type: Semi-Automatic Facultative Property Per Risk Excess of Loss
- Reinsurers: All Lloyds Markets:
- |                        |             |
|------------------------|-------------|
| SJC Syndicate #2003    | 35.00%      |
| RTH Syndicate #1414    | 35.00       |
| Talbot Syndicate #1183 | 15.00       |
| MAP Syndicate #2791    | 10.00       |
| Amlin Syndicate #2001  | <u>5.00</u> |
|                        | 100.0%      |
- Effective date: October 1, 2003
- Scope: Property Business: Fire, Allied Lines, Business Package Policies, Commercial Package Policies, and Inland Marine including Jewelers' Block.
- Retention: \$20,000,000
- Coverage: 100% of \$40,000,000 each and every loss each and every Risk or Risk Unit in excess of \$20,000,000 each and every loss each and every Risk or Risk Unit.
- Premium: For coverage \$10,000,000 excess of \$20,000,000 in respect of all risks, TRIA and Non-TRIA, 0.155% based on exposed values hereon.  
For coverage \$30,000,000 excess of \$30,000,000 in respect of all risks, TRIA and Non-TRIA, 0.140% based on exposed values hereon.  
For coverage excess of \$20,000,000 in respect to trade shows/exhibitions at a rate of 0.015% for the length of the trade shows/exhibitions. Maximum exposure for any one original insured at a trade show or exhibition is limited to \$7,500,000.
- Minimum and deposit premium of \$150,000, payable in three equal installments of \$50,000 on April 1, 2004, July 1, 2004, and October 1, 2004.
- Termination: This agreement shall be effective at 12:01 a.m., Local Standard Time, October 1, 2003 as respects losses occurring on risks attaching or renewing on or after that date and to end at 12:01 a.m., Local Standard Time, December 31, 2004.
4. Type: Property Catastrophe Excess of Loss
- Reinsurers: Ace Tempest Re  
5.00% of Section I; 5.00% of Section II; 5.00% of Section III  
American Agricultural Insurance Co.  
2.50% of Section I; 3.50% of Section II; 3.50% of Section III  
Arch Reinsurance Corporation  
15.00% of Section I; 15.00% of Section II; 15.00% of Section III  
Aspen Insurance UK Ltd  
5.00% of Section I; 4.50% of Section II; 4.50% of Section III  
Converium Reins. (No. America) Inc.  
20.00% of Section I; 0.00% of Section II; 0.00% of Section III  
Certain Lloyd's Markets (Alien ID# various)  
25.00% of Section I; 23.00% of Section II; 23.00% of Section III  
Farm Bureau Mutual Ins. Co. of Mich.  
0.00% of Section I; 1.50% of Section II; 1.50% of Section III  
Hannover Ruckversicherungs-AG  
0.00% of Section I; 15.00% of Section II; 15.00% of Section III

Odyssey America Reinsurance Corp.  
 7.50% of Section I; 7.50% of Section II; 7.50% of Section III  
 PXRE Reinsurance Company  
 20.00% of Section I; 20.00% of Section II; 20.00% of Section III  
 QBE Reinsurance Corporation  
 0.00% of Section I; 5.00% of Section II; 5.00% of Section III

Effective date: January 1, 2004

Scope: Property Business: Fire, Allied Lines, Business Package Policies, Commercial Package Policies, and Inland Marine including Jewelers' Block.

Retention: \$2,500,000

Coverage: First Layer: 100% of \$2,500,000 ultimate net loss, each loss occurrence in excess of \$2,500,000 ultimate net loss, each loss occurrence.

Second Layer: 100% of \$5,000,000 ultimate net loss, each loss occurrence in excess of \$5,000,000 ultimate net loss, each loss occurrence.

Third Layer: 100% of \$10,000,000 ultimate net loss, each loss occurrence in excess of \$10,000,000 ultimate net loss, each loss occurrence.

Premium: First Layer: 0.85% of the company's subject net earned premium with a minimum premium of \$416,000; deposit premium of \$520,000 shall be payable in quarterly installments.

Second Layer: 1.13% of the company's subject net earned premium with a minimum premium of \$550,000; deposit premium of \$687,500 shall be payable in quarterly installments.

Third Layer: 1.31% of the company's subject net earned premium with a minimum \$640,000; deposit premium of \$800,000 shall be payable in quarterly installments.

Termination: This agreement shall be effective at 12:01 a.m., Local Standard Time, January 1, 2004, through December 31, 2004, both days inclusive, and shall cover losses occurring during the term of this Agreement.

5. Type: Fourth Property Catastrophe Excess of Loss

Reinsurers:	All Lloyds Markets	41.00%
	American Agricultural Insurance Company	2.50
	Farm Bureau Mutual Insurance Company of MI	1.50
	Hannover Ruckversicherungs-AG	20.00
	Odyssey America Reinsurance Corporation	7.50
	PXRE Reinsurance Company	20.00
	QBE Reinsurance Corporation	<u>5.00</u>
		97.50%

Effective date: October 1, 2003

Scope: All inforce, new and renewal property business.

Retention: 2.5% of the fourth layer of coverage.

- Coverage: Fourth Layer: 100% of \$10,000,000 ultimate net loss, each loss occurrence in excess of \$20,000,000 ultimate net loss, each loss occurrence. (97.5% placement)
- Premium: Fourth Layer: 0.625% of the company's subject net earned premium with a minimum premium of \$400,000; deposit premium of \$500,000 shall be payable in quarterly installments.
- Termination: This agreement shall be effective at 12:01 a.m., Local Standard Time, October 1, 2003, through December 31, 2004, both days inclusive, and shall cover losses occurring during the term of this Agreement.
6. Type: HSB Equipment Breakdown
- Reinsurer: Hartford Steam Boiler Inspection and Insurance Company
- Effective date: September 1, 2000
- Scope: Equipment breakdown
- Retention: None
- Coverage: 100% of the Equipment Breakdown liability under the Businessowners or Commercial Package policies to which the Equipment Breakdown Coverage Endorsement is attached, not to exceed \$25,000,000 per policy for and one accident.
- Premium: For Businessowners policies, annual premium of \$48 for owners and \$29 for tenants. For Commercial Package policies, \$96 for owners and \$46 for tenants.
- Termination: This agreement shall become effective on September 1, 2000, and shall continue in force until terminated.
7. Type: Commercial Excess Liability (Umbrella)
- Reinsurer: General Reinsurance Corporation
- Effective Date: January 1, 2003
- Scope: Commercial excess liability policies
- Retention: 5.0% of the first \$1,000,000 and 2.5% of the amount in excess of \$1,000,000 up to and including \$5,000,000.
- Coverage: 95.0% of the first \$1,000,000, 97.5% of the amount in excess of \$1,000,000 up to and including \$5,000,000 and 100% of the amount in excess of \$5,000,000.
- Premium: 95% of written premium for policy limits up to \$1,000,000; 97.5% of written premium for policy limits in excess of \$1,000,000 up to \$5,000,000; 100% of written premium for policy limits in excess of \$5,000,000 up to \$10,000,000.
- Commission: 27.5% of ceded premium
- Termination: Either party may terminate with 90 days' prior written notice.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."



**Jewelers Mutual Insurance Company**  
**Assets**  
**As of December 31, 2003**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 82,055,512	\$	\$ 82,055,512
Stocks:			
Preferred stocks	200,000		200,000
Common stocks	33,332,799		33,332,799
Real estate:			
Occupied by the company	5,433,299		5,433,299
Properties held for the production of income	3,258,575		3,258,575
Cash	5,070,445		5,070,445
Short-term investments	120,491		120,491
Other invested assets	2,801,961	321,628	2,480,332
Write-ins for invested assets:			
Cash Surrender value on life insurance	450,731	197,965	252,766
Investment income due and accrued	1,165,846		1,165,846
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,239,933		1,239,933
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	19,539,983		19,539,983
Reinsurance:			
Amounts recoverable from reinsurers	180,174		180,174
Net deferred tax asset	1,707,337		1,707,337
Electronic data processing equipment and software	483,382		483,382
Furniture and equipment, including health care delivery assets	3,111,431	3,111,431	
Write-ins for other than invested assets:			
Amounts receivable miscellaneous	481,268	463,298	17,970
Unamortized guaranty fund credit	<u>37,448</u>	<u>          </u>	<u>37,448</u>
<b>Total Assets</b>	<b><u>\$160,670,614</u></b>	<b><u>\$4,094,322</u></b>	<b><u>\$156,576,292</u></b>

**Jewelers Mutual Insurance Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2003**

Losses		\$ 14,286,407
Reinsurance payable on paid loss and loss adjustment expenses		80,910
Loss adjustment expenses		5,091,887
Commissions payable, contingent commissions, and other similar charges		978,241
Other expenses (excluding taxes, licenses, and fees)		1,935,802
Taxes, licenses, and fees (excluding federal and foreign income taxes)		1,479,970
Current federal and foreign income taxes		162,240
Unearned premiums		43,544,957
Ceded reinsurance premiums payable (net of ceding commissions)		(1,039,844)
Amounts withheld or retained by company for account of others		1,147,605
Remittances and items not allocated		509,604
Payable to parent, subsidiaries, and affiliates		562,158
Payable for securities		<u>519,315</u>
Total Liabilities		69,259,253
Write-ins for special surplus funds:		
Non-assessable guarantee fund	\$ 1,250,000	
Unassigned funds (surplus)	<u>86,067,039</u>	
Surplus as Regards Policyholders		<u>87,317,039</u>
Total Liabilities and Surplus		<u>\$156,576,292</u>

**Jewelers Mutual Insurance Company  
Summary of Operations  
For the Year 2003**

**Underwriting Income**

Premiums earned		\$77,105,694
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Deductions:

Losses incurred	\$34,426,058	
Loss expenses incurred	4,279,084	
Other underwriting expenses incurred	<u>30,153,824</u>	

Total underwriting deductions		<u>68,858,966</u>
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Net underwriting gain		8,246,729
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**Investment Income**

Net investment income earned	4,313,547	
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Net realized capital gains or (losses)	<u>445,451</u>	
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Net investment gain or (loss)		4,758,998
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**Other Income**

Net gain or (loss) from agents' or premium balances charged off	(23,061)	
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Finance and service charges not included in premiums	214,987	
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Write-ins for miscellaneous income:

Miscellaneous income	24,684	
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Loss on disposal of EDP equipment	<u>(39,451)</u>	
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Total other income		<u>177,160</u>
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Net income (loss) before dividends to policyholders and before federal and foreign income taxes		13,182,886
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Federal and foreign income taxes incurred		<u>4,739,190</u>
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Net Income		<u>\$ 8,443,696</u>
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**Jewelers Mutual Insurance Company**  
**Cash Flow**  
**For the Year 2003**

Premiums collected net of reinsurance		\$ 77,977,110
Net investment income		4,419,691
Miscellaneous income		<u>177,160</u>
Total		82,573,961
Benefit and loss related payments	\$31,618,496	
Commissions, expenses paid, and aggregate write-ins for deductions	33,281,131	
Federal and foreign income taxes paid (recovered)	<u>4,275,316</u>	
Total deductions		<u>69,174,943</u>
Net cash from operations		13,399,017
Proceeds from investments sold, matured, or repaid:		
Bonds	\$34,002,550	
Stocks	6,909,061	
Other invested assets	189,756	
Miscellaneous proceeds	<u>1,110,473</u>	
Total investment proceeds	42,211,840	
Cost of investments acquired (long-term only):		
Bonds	44,140,470	
Stocks	11,274,379	
Real estate	77,696	
Other invested assets	1,294,113	
Miscellaneous applications	<u>45,935</u>	
Total investments acquired	<u>56,832,593</u>	
Net cash from investments		(14,620,753)
Cash from financing and miscellaneous sources:		
Other cash provided (applied)	<u>523,427</u>	
Net cash from financing and miscellaneous sources		<u>523,427</u>
<b>Reconciliation</b>		
Net change in cash and short-term investments		(698,309)
Cash and short-term investments, December 31, 2002		<u>5,889,245</u>
Cash and short-term investments, December 31, 2003		<u>\$ 5,190,936</u>

**Jewelers Mutual Insurance Company  
Compulsory and Security Surplus Calculation  
December 31, 2003**

Assets		\$156,576,292
Less liabilities		<u>69,259,253</u>
Adjusted surplus		87,317,039
Annual premium:		
Lines other than accident and health	\$82,271,988	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>16,454,397</u>
Compulsory surplus excess (or deficit)		<u>\$ 70,862,642</u>
Adjusted surplus (from above)		\$ 87,317,039
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>22,707,067</u>
Security surplus excess (or deficit)		<u>\$ 64,609,972</u>

**Jewelers Mutual Insurance Company  
Reconciliation and Analysis of Surplus  
For the Five-Year Period Ending December 31, 2003**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Surplus, beginning of year	\$74,416,247	\$70,820,231	\$71,705,783	\$68,921,014	\$64,429,474
Net income	8,443,696	6,840,088	4,643,073	5,941,178	5,043,531
Net unrealized capital gains or (losses)	6,200,535	(5,153,098)	(4,458,747)	(3,304,916)	(549,209)
Change in net deferred income tax	(1,403,947)	2,739,394	2,301,094		
Change in nonadmitted assets	(279,785)	(656,477)	(1,085,830)	148,507	(2,781)
Cumulative effect of changes in accounting principles			(2,285,142)		
FAS 87 minimum pension liability adjustment	<u>(59,707)</u>	<u>(173,891)</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Surplus, end of year	<u>\$87,317,039</u>	<u>\$74,416,247</u>	<u>\$70,820,231</u>	<u>\$71,705,783</u>	<u>\$68,921,014</u>

**Jewelers Mutual Insurance Company  
Insurance Regulatory Information System  
For the Five-Year Period Ending December 31, 2003**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	<b>Ratio</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
#1	Gross Premium to Surplus	100%	110%	90%	76%	72%
#2	Net Premium to Surplus	94	101	84	73	69
#3	Change in Net Writings	9	27	13	11	1
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	81	84	88	87	90
#6	Investment Yield	3.6*	4.2*	4.2*	3.9*	3.6*
#7	Change in Surplus	17	8	0	4	6
#8	Liabilities to Liquid Assets	41	43	45	39	39
#9	Agents' Balances to Surplus	1	2	1	1	1
#10	One-Year Reserve Development to Surplus	1	(2)	(2)	1	0
#11	Two-Year Reserve Development to Surplus	0	(2)	1	1	3
#12	Estimated Current Reserve Deficiency to Surplus	2	2	(4)	0	(1)

Ratio No. 6, Investment Yield, measures the profitability and general quality of the company's investment portfolio over the previous two-year period. The yields of 3.6% to 4.2% for the five-year period are slightly below the expected minimum result of 4.5%. Contributing factors include a majority of the bond portfolio invested in tax exempt bonds which provide a lower yield than taxable bonds, and stock investments which are acquired for market appreciation and capital gains rather than high earnings. Given the company's conservative approach to investments and the current market returns, these results are not a cause for concern.

**Growth of Jewelers Mutual Insurance Company**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus As Regards Policyholders</b>	<b>Net Income</b>
2003	\$156,576,292	\$69,259,253	\$87,317,039	\$8,443,696
2002	134,771,850	60,355,603	74,416,247	6,840,088
2001	122,095,596	51,275,365	70,820,231	4,643,073
2000	113,765,857	42,060,074	71,705,783	5,941,178
1999	107,352,290	38,431,276	68,921,014	5,043,531
1998	100,772,004	36,342,530	64,429,474	2,519,882

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Premium Earned</b>	<b>Loss And LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
2003	\$87,474,341	\$82,271,988	\$77,105,694	50.2%	36.4%	86.6%
2002	81,846,319	75,224,805	65,616,746	49.8	36.7	86.5
2001	63,410,128	59,363,357	55,284,852	56.9	38.7	95.6
2000	54,652,709	52,573,399	50,905,321	47.1	39.6	86.7
1999	49,292,468	47,504,903	47,482,350	54.7	38.9	93.6
1998	48,743,303	47,048,631	46,211,048	52.1	38.1	90.2

The company's assets and surplus have increased 55% and 35%, respectively, during the examination period, with net income reported in all years. The company continues its trend of growth while maintaining strong financial results. If the company meets designated financial objectives, dividends are paid to certain policyholders. In 2004, the dividends were paid to commercial policyholders whose policies were in force as of June 30, 2004, excluding commercial policyholders insured under Mail Shipment Policies. Policyholder dividends of \$3,814,836 and \$5,212,614 were paid in 2000 and 2004, respectively.



**Reconciliation of Surplus per Examination**

The examination made no adjustments to the company's reported surplus as regards policyholders and no reclassifications of any balance sheet items.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Invested Assets—It is again recommended that the company file reports with the Securities Valuation Office of the NAIC for the securities in its portfolio which are not listed in the Valuation of Securities, pursuant to s. Ins 6.20 (10), Wis. Adm. Code, and s. 623.02, Wis. Stat.

Action—Compliance

2. Invested Assets—It is again recommended that the company maintain all its invested assets in accordance with s. 620.23, Wis. Stat.

Action—Compliance

3. Other Invested Assets—It is recommended that the company immediately expense acquisition costs or nonadmit them on future annual statements.

Action—Compliance

4. Electronic Data Processing Review—It is recommended that the company establish a daily procedure to review the report of all computer room accesses. In addition, the company should review the need for individuals to have access to the computer room.

Action—Compliance

5. Electronic Data Processing Review—It is recommended that the company establish a procedure that once code is approved, no changes are made to that code prior to placing the code into production.

Action—Compliance

## **Summary of Current Examination Results**

### **Management and Control**

A directive issued by Wisconsin's Commissioner of Insurance requires companies to implement and enforce a procedure under which all directors and key officers complete a conflict of interest statement annually, to disclose any material interest or affiliation which is likely to conflict with their official duties. As part of the examination, a review was conducted to ensure all officers and directors are complying with the conflict of interest disclosure requirements. The review noted no completed conflict of interest statements could be produced for 2002. It is recommended that the company implement a procedure for the annual completion of conflict of interest statements by the officers and directors, and that such statements be maintained for review.

### **Internal Control**

The Electronic Data Processing Specialist reviewed the internal control over the company's computer processing systems. The review revealed application programmers responsible for providing support for the night-time batch process share operator IDs and passwords, and are not assigned individual IDs and passwords. The company response indicated that the current system does not allow for individual IDs. Individual IDs would provide an audit trail as to the initiator of a transaction. The company is implementing a new system in 2006. It is recommended that the company assign individual operator IDs and passwords to each application programmer when the new computer system is implemented.

Another area under review was control over access to computer systems. It was noted that the company has neither a formal periodic process to review that all user access is authorized and consistent with responsibility, nor a formal periodic process to review security violations. This would include both incorrect log attempts and unauthorized attempts to access data. The company also identified that for the purpose of troubleshooting, information technology personnel, the business support unit, and application developers have access to the data through their IDs. Programmers should not have access to production data but if they do the access should be controlled and monitored. It is recommended that for all significant and/or critical data,

the company establish a process such that access to data and security violations be monitored and reviewed periodically.

### **Custodial Agreements**

The company entered into custodial agreements with two banks. The examiners' review of the agreements indicated they did not contain all of the NAIC's recommended language as included below:

The agreement should state that certificated securities of the insurance company shall be held separate from all other securities or in a fungible bulk.

It is recommended that the company amend its custodial agreements to include all language recommended by the NAIC's Financial Condition Examiners Handbook.

### **Investment Advisory Agreements**

The review of the investment committee meeting minutes indicated that the company has a relationship with an investment advisor, although no formal agreement is in place. Approximately half of the company's bond portfolio is managed internally, with guidance from the advisor. Company management makes the decision on where to place the funds and contacts the advisor to make the purchase. Although the advisor is not compensated by the company, the advisor does receive broker fees for the transactions. It is recommended that the company execute formal agreements with all parties that provide services to the company, and include all language recommended by the NAIC's Financial Condition Examiners Handbook.

### **Repurchase Agreements**

The company entered into some repurchase agreements during 2003, with the assistance of one of its advisors. The company did not complete the footnote disclosure regarding its policy on collateral or security for repurchase agreements, and a description of the securities underlying the repurchase agreements, as required by SSAP No. 45 and the NAIC Annual Statement Instructions – Property and Casualty. It is recommended that the company make proper disclosures regarding its repurchase agreements as required by SSAP No. 45 and the NAIC Annual Statement Instructions – Property and Casualty.

### **Cash and Short-Term Investments**

The company has reported investments owned, whose repurchase dates under repurchase agreements were three months or less, as cash on Schedule E, Part 1, of the annual statement rather than cash equivalents on Schedule E, Part 2. No reclassification will be made, as both balances are reported on the same line of the annual statement asset page. It is recommended that the company report investments owned, whose repurchase dates under repurchase agreements are three months or less, as cash equivalents on Schedule E, Part 2, of the annual statement in accordance with NAIC Annual Statement Instructions - Property and Casualty.

### **Affiliated Agreements**

The company executed a management agreement with its affiliate, JMIS, in 2001. However, the agreement specifies only reimbursement to the parent for services provided and does not include guidelines for reimbursement of balances owed to the affiliate. Review of the subsequent settlement of affiliated balances noted the year-end balance was a payable to the affiliate, and no settlement had been made prior to the completion of fieldwork. It is recommended that the company modify the language of the management agreement with its affiliate to include settlement of balances due from parent to affiliate and specifically denote the time period in which all settlements must be made.

### **Premium in Course of Collection**

The review of premiums receivable noted that the report provided by the company for commercial premium in course of collection did not age balances. The company noted that, per its payment plan and cancellation policy for commercial premium, a policy would be cancelled before premium was 90 days past due. However, review of the premium receivable report did note some premium balances which had not been collected within the 90-day window. The balance was not material, and no adjustment to surplus will be made. It is recommended that the company age receivables to determine and nonadmit balances which are greater than 90 days past due.

**Permitted Accounting Practice**

In 2002, the company requested and received a permitted accounting practice regarding advance premium for the years 2002 through 2006. The company's request was to include premium received prior to year-end for policies renewing in the subsequent year as written premium in the current year. The reason for the request was that the company's computer system did not allow the company to process a policy without recording it as written premium. In requesting this permitted practice, the company agreed to expense agent commissions on the advance premium as if it was written business, to include the advance premium in its written premium base for state premium tax purposes, and to include the advance premium in its unearned premium reserve for statutory reporting and federal income tax purposes. A new computer system was expected to be implemented in 2006, which would eliminate the need for the permitted practice. The examination review noted the company is complying with the terms of the permitted practice, and the implementation of the new computer system appears to be on schedule.

## **VIII. CONCLUSION**

Jewelers Mutual Insurance Company has been in business for over 90 years, offering insurance coverage to the jewelry industry. The company writes business in all areas of the country, as it continues to grow and exhibit solid financial results. Premium writings increased 79% during the years under examination, with net income reported in all years, and surplus increased 35% during the period. In 2000, the company formed JM Insurance Services, LLC, as a company-owned insurance agency.

The examination determined company compliance with all five of the prior examination recommendations. The current examination resulted in nine recommendations, which are summarized in the "Summary of Comments and Recommendations" section of this report. There were no adjustments to surplus or reclassifications of balance sheet accounts as a result of the examination.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Management and Control—It is recommended that the company implement a procedure for the annual completion of conflict of interest statements by the officers and directors, and that such statements be maintained for review.
2. Page 25 - Internal Control—It is recommended that the company assign individual operator IDs and passwords to each application programmer when the new computer system is implemented.
3. Page 25 - Internal Control—It is recommended that for all significant and/or critical data, the company establish a process such that access to data and security violations be monitored and reviewed periodically.
4. Page 26 - Custodial Agreements—It is recommended that the company amend its custodial agreements to include all language recommended by the NAIC's Financial Condition Examiners Handbook.
5. Page 26 - Investment Advisory Agreements—It is recommended that the company execute formal agreements with all parties that provide services to the company, and include all language recommended by the NAIC's Financial Condition Examiners Handbook.
6. Page 26 - Repurchase Agreements—It is recommended that the company make proper disclosures regarding its repurchase agreements as required by SSAP No. 45 and the NAIC Annual Statement Instructions – Property and Casualty.
7. Page 27 - Cash and Short-Term Investments—It is recommended that the company report investments owned, whose repurchase dates under repurchase agreements are three months or less, as cash equivalents on Schedule E, Part 2, of the annual statement in accordance with NAIC Annual Statement Instructions - Property and Casualty.
8. Page 27 - Affiliated Agreements—It is recommended that the company modify the language of the management agreement with its affiliate to include settlement of balances due from parent to affiliate and specifically denote the time period in which all settlements must be made.
9. Page 27 - Premium In Course of Collection—It is recommended that the company age receivables to determine and nonadmit balances which are greater than 90 days past due.



## **X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Amy Wolff	Insurance Financial Examiner
Angela Graff	Insurance Financial Examiner
Glen Navis	Insurance Financial Examiner
Randy Milquet	EDP Specialist
Jerry DeArmond	Policy and Claim Reserve Specialist

Respectfully submitted,

Jean Suchomel  
Examiner-in-Charge